

Now Final – Signed by Governor Carciari on June 30, 2005

IMPORTANT NOTICE TO CIGARETTE RETAILERS

Please be advised that there is an article in the state budget legislation for the fiscal year beginning July 1, 2005 requiring the prepayment of sales tax on all cigarettes held for sale or use in Rhode Island.

The article requires every cigarette distributor to prepay a sales tax on all cigarettes possessed for sale or use in this state on which a distributor is required to affix cigarette stamps. The distributor must make the prepayment to the Division of Taxation at the time of purchasing its cigarette stamps. The prepayment tax will be computed annually by multiplying the minimum price of standard brands of cigarettes in effect as of April 1, 2005 and each April 1 thereafter by the sales tax rate imposed by section 44-18-18 of the Sales and Use Tax Law. Since the sales tax rate is currently 7% and the minimum price of standard brands was \$5.70 per pack of twenty cigarettes as of April 1, 2005, the sales tax prepayment for each cigarette package would be 40 cents for the fiscal year July 1, 2005 thru June 30, 2006.

All distributors selling cigarettes to retailers on or after July 1, 2005 must pass the prepaid sales tax through to the retailer and show the prepaid sales tax amount as a separate line item on the billing invoice. **The retailer's prepayment of the sales tax to the distributor would not require a change in either the retailer's selling price of the cigarettes or the amount the retail sales tax that the retailer is required to collect from its customers. The retailer would continue to sell cigarettes and collect sales tax on such sales in the same manner as prior to July 1, 2005.** When selling to a customer, the prepaid sales tax paid to the distributor would not be included in the retail selling price of the cigarettes but would be taken as a credit on the retailer's monthly or quarterly sales and use tax return.

EXAMPLE

Retailer ABC's gross receipts from the sales of cigarettes for the month of July 2005 are \$3,000.00. Additionally, receipts from other taxable items amounts to \$2,000.00. ABC's sales tax liability for the month is \$350.00 (\$5,000.00 x 7%).

Retailer ABC's purchase invoices dated July 2005 from its cigarette distributor reflects total prepaid sales taxes of \$170.00. On its July sales and use tax return, ABC would show a credit of \$170.00 as an offset against its sales and use tax liability of \$350.00 and would pay a net sales tax of \$180.00.

We will send you new sales tax returns for July and thereafter in the next several weeks.

Should you have any questions, please call the Excise Tax Section at 401-222-2950.